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The CFO's Guide to Transforming Accounts Payable into a Profit Center

95% of CFOs foresee "positive" business growth in 2018

PriceWaterhouseCooper's (PwC's) Trendsetter 2018

83% of the CFOs surveyed by PwC are optimistic about prospects for U.S economic growth

Up from 64% at the beginning of 2017

40%

Of finance effort could be aligned to more value-driven activities through automation

PwC's Finance Effectiveness Benchmark Report 2017

CFOs anticipate stout revenue growth of 7.3 percent during 2018, PwC says.

But the prospect of faster business growth creates new challenges for CFOs, particularly those at mid-sized businesses with between $50 million and $500 million in annual revenues. CFOs must develop strategies to support growth while managing finance complexity and keeping costs in check.

More CFOs are meeting these demands by automating payments to suppliers to increase profit margins, capture more early-payment discounts, earn cash-back rebates on supplier payments made via card, and gain real-time visibility into outbound cash flows and corporate spend.

Top finance organizations outperform their median peers by 36% when it comes to cost as a percentage of revenue.

PwC's Finance Effectiveness Benchmark Report 2017.

Payments automation is moving from a "nice-to-have" to a "must-have" in the eyes of CFOs:

- Businesses are eliminating the cost of paper checks from Day 1
- Businesses are earning an average 18 percent annual return from early payment discounts
- Businesses are capturing tens of thousands of dollars annually – and in some cases, hundreds of thousands of dollars annually – from cash-back rebates on card transactions
- Businesses are reducing their borrowing costs by standardizing their payment terms
- Businesses are improving their budgeting and forecasting with real-time payables visibility

As evidence of the rising importance of accounts payable, consider that 58% of CFOs rate accounts payable as having "high value" and being a "critical component of their business," per the Institute of Finance and Management's (IOFM's) Senior Finance Executive Survey. This is a sea change from the traditional perception of accounts payable as a tactical, back-office function.

Thirty-Three Percent

of finance executives surveyed by CFO Research said their business increased net income and profit margins because of automating financial processes.

This white paper provides CFOs with a guide for transforming accounts payable into a profit center.

Cash is King

Effectively managing outbound cash flows is critical to supporting business growth.

Accounts payable automation is key to helping CFOs deliver on their mandate to optimize financial assets and liabilities, drive cash flow improvements, and manage financial risk.

Outbound cash flows impact capital expenditures, strategic decisions, and borrowing.

So, it is not surprising that the cash flow against current and future expenses tops the list of financial metrics tracked by businesses, per IOFM's Finance Executive Survey.

Even more telling is that CFOs rank cash flow analysis and liquidity management as their top job priority. A cash flow analysis provides businesses with visibility into their assured income, irrespective of market or economic conditions. Effective cash management ensures timely payments, eliminates late fees, increases investable income and return-ratios, and reduces the needfor borrowing and corporate debt.

71%

of CFOs say that their organization considers growth to be a strategic priority, per Accenture.

CFOs must harness the collective ability of the entire finance organization to optimize cash flows to help their business grow. The stakes are high in today's competitive global economy with disruptive competitors.

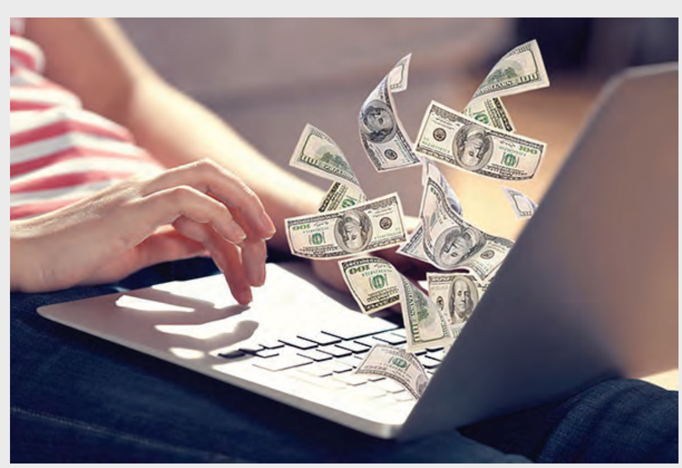
One of the largest opportunities to impact cash flow lies within supplier payments.

The Changing Role of Accounts Payable

Accounts payable has historically been viewed as a cost center.

As recently as 2016, one-third of businesses considered their accounts payable function as valuable in the context of processing invoices, scheduling supplier payments, and mailing checks, but not strategic, per Ardent Partners' ePayables: Eyes on the Prize report.

One-third of businesses viewed accounts payable as valuable only at the project level, collaborating occasionally with partners.



Transforming Accounts Payable into a Profit Center

There are four steps that CFOs at mid-sized businesses with between $50 million and $500 million in annual revenues can take to transform their accounts payable department into a profit center.

Step #1: Pay Suppliers Electronically
The first step to transforming accounts payable into a profit center is to pay suppliers electronically.

In a traditional check payments environment, staff must print, sign, and mail paper checks to suppliers or log in to one of potentially several bank portals to initiate electronic transactions. Managing multiple payment systems inevitably results in higher overhead and banking fees. Making matters worse, most businesses must add staff as their payments volume increases.

And manually reconciling supplier check payments is a time-consuming and error-prone process.

Not surprisingly, 63 percent of businesses cite the operational costs around the reconciliation of invoices and payments as a major pain point, per IOFM. Lost and stolen checks contribute to paper checks being 10 times more prone to fraud than electronic transactions, per IOFM. Additionally, paying suppliers with paper checks also offers no opportunities to earn cash-back rebates.

Automated electronic payment processes cost **60%** less on average than their manual paper-based counterparts.

Ardent Partners 2016-2017 Technology and Innovation Outlook Report

Businesses of all sizes are embracing electronic payments to suppliers.

Automated Clearing House (ACH) transactions represent nearly 33 percent of all payments to suppliers while wire transfer accounts for nine percent of payments, according to IOFM's research

Virtual cards represent five percent of all payments to suppliers – a huge increase over just a few years ago when cards were primarily used for small-dollar purchases and business travel expenses.

The use of electronic payments has grown a lot since 2013, when businesses made 71 percent of their payments via paper check, per IOFM's AP Department Benchmark and Analysis report. For instance, accounts payable departments have replaced an average of 11 percent of their invoice volume with purchasing card transactions. What's more, nearly three-quarters of businesses have a strategy in place to increase their percentage of electronic payments to suppliers IOFM finds.

Electronic payments are a strong foundation for working capital optimization initiatives.

For starters, some providers of electronic payment solutions eliminate the costs associated with paying suppliers from Day 1. Electronic payments also streamline payment operations. A single payment file upload initiates payment to all buyer's suppliers; instructions are parsed, and payments are automatically remitted in all payment methods.

This eliminates the need to log in to multiple banking systems and wipes out the costs of printing and mailing paper checks. What's more, integrating electronic payments with the general ledger of an ERP platform provides real-time payment reconciliation that eliminates the keying of data or the decoding of banking messages.

Additionally, advanced solutions automatically track approved and initiated payments and any rejects, with detailed payment and reconciliation reports integrated into the buyer's ERP system. This end-to-end tracking enables more accurate accrual reporting, greater payment reporting integrity, and better visibility into spending based on the metrics most important to the CFO

Best-in-class accounts payable teams spend **92%** less per supplier payment than their peers

Ardent Partners 2016-2017 Technology and Innovation Outlook Report

Step #2: Enhance Visibility into Outbound Cashflow

The second step to transforming accounts payable into a profit center is to enhance visibility

Accounts payable data is often the 'eyes' to the financial soul of the business, since CFOs and other finance executives can use it to gain insight into corporate financial health, notes Andrew Bartolini, chief research officer at Ardent Partners. "The spend- and supplier-specific data included in invoices can be leveraged to identify spend trends and patterns, support future supplier negotiations, and can determine how well-positioned a company is to take advantage of supply chain financing options."

Accounts payable departments have an opportunity to serve as an information hub to CFOs by providing critical insights into cash flows, corporate spending, and operations performance.

But in a manual accounts payable environment, key information is not captured, systems are fragmented, information is not timely, and decision-makers do not have access to key variables.

Seventeen percent of CFOs say that difficulty capturing early payment discounts is their biggest accounts payable challenge

IOFM's Senior Finance Executive Survey reports.

Paper-based processes also provide inadequate visibility into spending. Finance often does not know about an invoice until it shows up on their desk. This is a big reason why 22 percent of businesses can only forecast mid-term cash flow with five percent accuracy, according to industry benchmarks. The inability to plan for large amounts of spending can have ripple effects across the business.

Step #3: Accelerate Cycle Times

The third step towards transforming accounts payable into a profit center is to accelerate invoice approval cycle times to create more opportunities to capture early payment discounts from suppliers.

Eighty percent of suppliers are willing to exchange discounts on the amount due on an invoice in exchange for early payment, IOFM reports. The earlier the payment, the larger the discount.

The savings from early payment discounts add up – more than offsetting accounts payable overhead.

There are two primary ways that accounts payable departments can capture early payment discounts:

1. **Dynamic discounting**: this is when an early payment is made to a supplier using the buyer's balance sheet cash (the buyer must have cash in reserve to make the early payment). Here's how dynamic discounting works: a supplier sends an invoice to a buyer; the buyer approves the invoice; the supplier receives an early payment discount offer from the buyer; if the offer is accepted, the buyer adjusts the invoice to reflect the discount and executes the payment.

2. **Supply chain financing:** this is when an early payment is made using cash from a third-party, such as a bank, financial institution or investment firm. As with dynamic discounting, a supplier sends an invoice to a buyer; the buyer approves the invoice; the buyer and the supplier negotiate early payment discount terms; once the terms of the early payment are negotiated, the third-party takes on the risk and pays the supplier; when the invoice reaches maturity, the buyer pays the full invoice value to the third-party.

Supply chain financing enables buyers to make an early payment when balance sheet cash is unavailable.

The savings from early payment discounts can potentially deliver eight times the financial benefit of savings from invoice processing automation alone, IOFM's benchmarking research shows.

Let's put that into perspective:

Highly automated accounts payable departments capture seven times more early-payment discounts (as a percentage of spend) as their peers, per The Hackett Group's E-Invoicing Benchmarking Study.

That means that a $1 billion-revenue company that previously captured $200,000 annually in early payment discounts may gain $1.4 million a year in additional discounts through automation.

Capturing early payment discounts can make a major financial contribution to business growth.

66%

Sixty-Six Percent

of CFOs lack visibility into key insight areas.

Accenture reports

About 60 percent of finance operations rely on spreadsheets for reporting.

Additionally, in a manual accounts payable environment, cost-center managers may not have real-time visibility into their business unit's spending. Accounts payable leaders do not have visibility into the status of invoices and payments, or the root cause of exceptions. And financial and procurement leaders cannot easily access the reports required for decision-making.

ERP systems don't offer much help. Building reports in an ERP system, or with a standalone business intelligence platform is very complicated, typically involving complex database queries.

Forty-five percent
of senior finance executives say that a lack of visibility into payables information is their biggest accounts payable challenge, per IOFM.

Sixty-eight percent
of controllers identified improving visibility into cash flow as the most critical finance and administration priority, per IOFM's Senior Finance Executive Survey.

Advanced payment solutions provide CFOs with actionable cash flow insights such as:

- On-time payment percentage
- Spend visibility and trends
- Spend-to-supplier ratio
- Accounts payable value and volumes
- Accounts payable process metrics
- Payment and discount capture metrics
- Team productivity metrics

Thirty-seven percent
of businesses surveyed by CFO Research cited better budgeting and forecasting as one of the top benefits of automating their financial operations.

Automation also tracks the status of payments (including initiated payments and rejects), generating detailed transaction and reconciliation reports, providing a consolidated view of all payout accounts. All this enables more accurate accrual reporting and greater reporting integrity, which supports profitability.

A digital environment where the CFO makes real-time financial decisions utilizing real-time information and customizable dashboards is within the reach of more businesses.

Step #4: Earn Cash-Back Rebates

The final step towards transforming accounts payable into a profit center is to capture cash-back rebates on payments made via a virtual card – plastic-less cards tied to a single transaction.

59%

of supplier payments are initiated electronically, the Association for Financial Professionals' Payments Benchmarking Survey reports.

Strategic Treasurer's 2017 B2B Payments & Working Capital Survey illustrates the decline checks:

- Paper checks are the least-preferred payment option of best-in-class accounts payable departments.
- Fifty-five percent of best-in-class accounts payable departments make more than half their supplier payments electronically.
- Fifty-four percent of best-in-class accounts payable departments view ACH as their preferred payment methods.
- Forty-three percent of best-in-class accounts payable departments regularly look to earn cash-back rebates.

The number of checks issued in the United States declined by 2.3 billion between 2012 and 2015, the U.S. Federal Reserve's Payments Study finds.

What really has CFOs at mid-sized businesses excited about electronic payments is the opportunity to earn cash-back rebates on payments made via virtual card. It is not uncommon for businesses to earn cash-back rebates on 30 percent of their spending. In some cases, the cash-back rebates earned by businesses have single handedly transformed their accounts payable department a profit center.

The money earned through cash-back rebates and the other working capital strategies described in this white paper can provide CFOs with the money to automate invoice processing.

One real estate company earned $800,000 in cash-back rebates in one year on virtual card transactions.

An Action Plan

Transforming accounts payable into a profit center through automation is no sure thing without the right solution. CFOs should look for an accounts payable solution with the following attributes:

- Seamless ERP integration: achieving complete visibility into outbound cash flows requires a solution that seamlessly uploads invoice data into any ERP or accounting system.
- A single solution for any payment method: not every supplier will accept virtual card payments. So, look for a solution that facilitates payments via check, virtual card or ACH using a single payment file, and offers cash-back rebates for payments made via virtual card.
- Intuitive dashboards: the real-time reporting in advanced accounts payable solutions enables businesses to forecast outbound cash flows with 98 percent accuracy. And instant access to account balances enables CFOs to make better decisions about discount offers

Conclusion

The role of the CFO is changing. Businesses expect their CFO to drive corporate growth objectives. Accounts payable can play a big part in helping the CFO achieve this objective, particularly those at mid-sized businesses with between $50 million and $500 million in revenues. Automating with the right solution transforms accounts payable into a profit center through lower costs, faster cycle times, enhanced visibility into outbound cash flows, and cash-back rebates on payments made via card.

ACOM Solutions

This white paper was sponsored by ACOM Solutions.

Since 1983, ACOM Solutions has delivered automated payment solutions that transform accounts payable from a cost center into a profit center.

Our Accounts Payable electronic payments solutions automate paper-intensive processes, eliminate the cost of paying suppliers and vendors, increase AP working capital, generate revenue AP spend rebates, and mitigate payment fraud.

Annually, ACOM processes $112 Billion in Accounts Payable spend, 96 million invoices, and 32 Million payment transactions.

Our integration with more than 100 ERP and accounting software systems – including those from Microsoft Dynamics GP, Sage and Abila MIP – means you can automate the Accounts Payable payment process without changing the way you work.

We combine our electronic payment solutions with Vendor Management Services that are proven to deliver optimum supplier adoption without creating extra work for you.

More than 1,500 clients across industries depend on our accounts payable solutions.

Learn more at www.acom.com.